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SUBJECT: RWANDA ECONOMIC REVIEW

¶1. (U) This edition of the Rwanda Economic Review covers:

-- 2008 Tourism revenues up 55 percent over 2007, but slow start to 2009
-- Economy grows 10 percent in 2008
-- Rwandatel to invest $45 million to expand market share, MTN launches BlackBerry
-- Construction begins on new Hydro Power Project
-- Rwanda Trade with India grows 59 percent
-- Electricity roll-out plan needs $300 million in new investment

¶2. (U) Tourism: In 2008, tourism to Rwanda increased significantly both in numbers of tourists and in total tourism revenue. The overall number of visitors (including leisure, transit and business) increased from just over 800,000 in 2007 to over 1 million in 2008. Total revenues also increased by 55 percent from $138 million in 2007 to 215 million in 2008. Leisure tourists -- high-end visitors to Rwanda's national parks -- increased an impressive 150 percent from 21,000 in 2007 to 53,000 in 2008. Leisure tourists accounted for only five percent of overall tourist numbers in 2008, but represented over 30 percent of total tourism revenues.

¶3. (U) Anecdotal information from hotel and tour operators may indicate a possible drop in tourism for the first half of ¶2009. High-end Virunga Lodge reported only filling 100 bed nights for January compared to 180 last year. Tour operators attributed the drop to the global financial crisis and to concerns about instability in nearby Democratic Republic of the Congo (DRC).

¶4. (U) Economy Grows 10 percent: Rwanda Minister of Finance James Musoni reported that the country's gross domestic product (GDP) grew 10 percent last year. Agriculture, representing 30-40 percent of GDP, recovered from poor harvests in 2007 to grow by 14 percent in 2008. The industrial and services sectors also registered strong growth at around 8 percent. However, the government's real GDP growth estimates may be inflated as they are based on an estimated annual inflation rate of 15 percent. Inflation accelerated to 29 percent by the end of 2008 indicating that the average annual inflation rate may have been higher than the 15 percent used in the government's calculations. Previously, the IMF reported estimated GDP growth for 2008 at 8.5 percent.

¶5. (U) Telecom: Rwandatel, Rwanda's second largest telecom provider announced it will invest $45 million in 2009 to

expand services and consolidate a shift from CDMA technology to GSM 3G. Since moving to GSM technology, Rwandatel has attracted 40,000 new subscribers weekly, according to CEO Patrick Kariningufu. Rwandatel is 80 percent owned by Libyan-owned LAP-Green and is seeking to increase its market share from 10 to 50 percent. Meanwhile MTN, Rwanda's telecom market leader, announced the launch of BlackBerry solution. BlackBerry solution enables wireless access via BlackBerry smartphones to multimedia, email and other corporate data. MTN Chief Operations Officer Andrew Rugege told reporters that the company wants to double its subscriber base from one to two million subscribers and will increase capital expenditures from $60 million in 2008 to $100 million in 2009 to achieve this target.

¶6. (U) Hydro power: Construction has started on the 28MW Nyabarongo hydro power plant. The project is scheduled to be completed in four years at a cost of $100 million. India's Qcompleted in four years at a cost of $100 million. India's Axim Bank is funding $80 million of project costs and two Indian companies, Bharat Heavy Electricals Ltd and Angelique International Ltd will execute the construction. State Minister for Energy Albert Butare noted that 330 hydro sites have been identified in the country and construction has already started on 25. Butare told reporters that construction of a joint Rwanda-Tanzania-Burundi 62 MW hydro power project in Rusumo will begin in 2010.

¶7. (U) Rwanda-India Trade: Trade between Rwanda and India increased substantially in 2008 over 2007. Indian exports to Rwanda jumped 59 percent from $22 million in 2008 to 33.6 million in 2007. Rwandan exports to India grew from less than $500,000 in 2007 to $7 million in 2008. On January 19-20, President Paul Kagame led a five nation East African Community delegation to New Delhi to attend the India-Africa Business Partnership Summit. In his keynote Summit address, Kagame pressed for expanded collaborative partnerships between Africa and India and noted that the East African market offered enormous investment opportunities for Indian companies in priority sectors such as IT, energy, infrastructure, construction, mining, agriculture and financial services. During the Summit Kagame also openly supported India's bid for a permanent seat on the UN Security Council.

¶8. (U) Electricity Distribution Plan: On February 4, GOR consultant Castalia presented a draft prospectus to the GOR and donors to expand electricity distribution from six percent of the population currently to 16 percent by 2012. The consultant said the plan is technically feasible but will need $310 million in capital investment and technical assistance to achieve this goal. The national power grid currently only reaches 110,000 households (6 percent of the population), 21 percent of schools, 74 percent of health centers and 70 percent of administrative offices. By 2012, 350,000 households will be connected, 50 percent of schools and 100 percent of health centers and administrative offices, according to the plan. The consultants estimated the cost per household connected at $1,300 and said current tariffs would cover operating costs but that 80 percent of capital costs would need to be funded by the Government and development partners. The plan also proposes $25 million for solar panels and $50 million in micro-hydro generators to provide power to schools and clinics outside the reach of the proposed grid.

9 (U) Development partners at the meeting questioned whether sufficient funds were allocated to technical assistance and capacity building, noting if implementation capacity was lacking the project would not achieve its targets. Donors also stressed the importance of a "self-financing" component to the proposed expansion and requested a tariff study to evaluate if current tariffs are "cost reflective".

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